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Dick's Sporting Goods, Inc. (DKS)

Q3 2014 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the DICK'S Sporting Goods' Third Quarter Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Anne-Marie Megela, Vice President of Treasury Services and Investor Relations. Please go ahead.

Anne-Marie Megela
Vice President – Treasury Services and Investor Relations

Thank you, Emily. Good morning and thank you for joining us to discuss our Third Quarter 2014 financial results. Please note that a rebroadcast of today's call will be archived on the Investor Relations portion of our website, located at DICK'S.com for approximately 30 days. In addition, as outlined in our press release, the dial-in replay will also be available for approximately 30 days.

In order for us to take advantage of the Safe Harbor rules, I would like to remind you that today's discussions include some forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which include, but are not limited to, our views and expectations concerning our future results. Such statements relate to future events and expectations and involve known and unknown risks and uncertainties. Our actual results or actions may differ materially from those projected in the forward-looking statements.

For a summary of the risk factors that could cause results to differ materially from those expressed in the forward-looking statements, please refer to our periodic reports filed with the SEC, including the company's Annual Report on Form 10-K for the year ended February 1, 2014. We disclaim any obligation and do not intend to update these statements, except as required by the securities law. We have also included some non-GAAP financial measures in our discussion today. A presentation of the most directly comparable financial measures, calculated in accordance with generally-accepted accounting principles and related reconciliations can be found on the Investor Relations portion of our website at DICK'S.com.

Leading our call today will be Ed Stack, our Chairman and Chief Executive Officer. Ed will review our third quarter results and key business drivers. Joe Schmidt, our President and Chief Operating Officer, will then review our omni-channel development program, and specialty concepts. After Joe's comments, André Hawaux, our Chief Financial Officer, will provide greater detail regarding our financial results, capital allocation, and guidance of fourth quarter and full year 2014. I will now turn the call over to Ed Stack.

Edward W. Stack
Chairman & Chief Executive Officer

Thank you, Anne-Marie. Earlier this morning, we announced our third quarter 2014 results, which included consolidated earnings per diluted share of $0.41, at the higher end of our guidance range of $0.38 to $0.42 for the quarter. Our consolidated same-store sales increased 1.1%, at the lower end of our guidance between 1% and 3%, due to the continued pressure in golf and hunting. The balance of our business, excluding golf and hunting, continued to perform well with sales increasing 4.6%. We once again demonstrated our confidence in our long-term growth by repurchasing an additional $75 million of stock in the quarter.

In the third quarter, we saw continued growth in the categories that benefited from our space reallocation that was completed during the second quarter. As a result, our stores now offer a broader, more compelling selection of Athletic Apparel, supported by an elevated and differentiated product presentation. The hunting business comped down mid-single digits in Q3, slightly below our revised expectations as hunting is not rebounding as quickly as we had anticipated. We expect our hunting business to be approximately flat in the fourth quarter as year-over-year comparisons begin to ease.

As we look at our golf business, Golf Galaxy comped down 8.9% and our DICK'S golf business was down a similar magnitude. As we look to the fourth quarter, we believe that our merchandising, product offerings and advertising will make us a destination this holiday, both in stores and online and drive our comp store sales growth. Our guidance range incorporates these strategies along with our expectation that the retail environment will remain competitive and promotional. André will walk you through our guidance in more detail.

I'd like to thank our associates throughout the company for the hard work and determination they showed to deliver our Q3 results and for the upcoming efforts during the holiday season. But this is Joe's last earnings call prior to his retirement. I'd like to thank him for the last 25 years he spent with us. Joe has been our President for over six years. He has served in many roles in the company and has done a great job in every one of them. Joe has not only been the President of our company, but also one of my best friends over the years. All of us at DICK'S, and especially me, are going to miss him.

I'd now like to turn the call over to my friend, Joe.

Joseph H. Schmidt

President & Chief Operating Officer

Thanks, Ed. During the third quarter of 2014, we further expanded our omni-channel platform, growing both our store base and our eCommerce, while driving store productivity. We opened 24 new DICK'S stores, relocated one store that was at the end of its lease, and fully remodeled five stores. We also closed one DICK'S store. In the first two weeks of the fourth quarter, we completed our 2014 store development program with six additional DICK'S stores opening. This brings our store count to 603 DICK'S stores in 46 states. During 2014 for DICK'S, we opened 45 net new stores, relocated five stores and fully remodeled five stores. We will discuss our 2015 store opening plans on our fourth quarter earnings call.

In the third quarter, we also opened one new Golf Galaxy store and relocated one store. We expect to close two Golf Galaxy locations that are at the end of their leases in the fourth quarter. This will bring our Golf Galaxy store count to 78 stores at the end of the year. We also opened seven Field & Stream stores in the third quarter, bringing our store base to 10 stores and completing our Field & Stream opening plans for 2014.

As Ed mentioned, in the second-quarter, we had reallocated space within our existing DICK'S stores to increase our offering of women's and youth athletic apparel, and the space reallocation was set for the entire third quarter. As part of this initiative, we took approximately 1,000 square feet out of our golf equipment area and additional square footage out of fitness equipment. The reallocation of store selling space was completed in all of our single-level stores, which represents approximately 85% of our total store base. Customer response to the new product selection and merchandising presentation has been great. We also realigned our store staffing to support the growth areas of our business, such as athletic apparel, Team Sports and Footwear.

Our new DICK'S stores continued to deliver strong performance, with new store productivity of 96.2% in the third quarter. As you may know, all of our existing stores and new DICK'S stores, feature ship-from-store capabilities, allowing us to connect online shoppers with inventory in our stores. Our new stores enhance our distribution network as new stores can also be used to fulfill eCommerce orders. We continue to optimize our ship-from-store fulfillment to improve inventory turns, reduce shipping costs, and accelerate merchandise delivery to our customers. As we open stores in new markets, we've also seen our eCommerce business, although off a small base, increase by over 50%.

This is another example of importance of the stores for omni-channel growth. Another feature of our omni-channel offering is Buy Online, Pick Up in Store, which is available in all of our stores in a limited number of categories. We have found that Buy Online, Pick Up in Store, is more popular for items that have higher shipping costs. We believe Buy Online, Pick Up in Stores, is not only a benefit to our customers, but it will also draw customers into our stores. And we are pleased with the early adoption we are seeing.

Turning now to Field & Stream, our seven grand openings this quarter performed in line with our expectations and we continued to see opportunities to drive sales and margins. We are learning a lot from our initial stores and we are incorporating these learnings into all of our existing and future stores. Now, I will turn the call over to André to discuss our financial performance, capital allocation, and 2014 outlook in more detail.

André J. Hawaux
Chief Financial Officer & EVP-Administration

Thank you, Joe, and good morning to everyone. Today, I'm going to cover three topics: first, our third quarter results; next, our capital allocation strategy; and finally, our outlook for the fourth quarter and the full-year.

Starting with our third quarter results, total sales increased 9% to $1.5 billion, consolidated same-store sales increased 1.1%, compared to our guidance of 1% to 3% same-store sales growth and compared to a shifted comp of 3.3% in the third quarter of last year. DICK'S Sporting Goods consolidated same store sales increased 1.7%, while Golf Galaxy decreased 8.9% in the third quarter. The 1.7% consolidated increase in the DICK'S business was driven by a 1% decrease in traffic and by 2.7% increase in sales per transaction. eCommerce penetration was 7.3% of the total sales in the third quarter, compared to 6.5% in the third quarter of last year.

Moving down the income statement, third quarter gross profit was $452 million, or 29.6% of sales, and was down 74 basis points from the third quarter of 2013. This was due primarily to a 53 basis point decrease in merchandising margin, as well as occupancy deleverage and increased shipping expense as a percentage of sales due to the growth of our eCommerce business.

SG&A expenses in the third quarter were $357.7 million, or 23.43% of sales, and leveraged 40 basis points for the third quarter versus the third quarter of last year. This was primarily due to lower administrative and payroll expenses as a percentage of steals. Pre-opening expenses were $14.3 million, a $2.2 million increase from the third quarter of 2013. The increase in our pre-opening expenses primarily reflects an increase in the number of Field & Stream stores opened in the third quarter this year relative to prior year. For the third quarter, we generated earnings of $0.41 per diluted share, compared to earnings of $0.40 per diluted share in the third quarter of last year.

Now, turning to the balance sheet, we ended the third quarter of 2014 with approximately $78 million of cash and cash equivalents, and $281 million of borrowings outstanding under our revolving credit facility. Last year, we ended the third quarter with about $66 million in cash and cash equivalents, and $116 million of borrowings outstanding on our revolving credit facility.

Over the past 12 months, we have invested in our omni-channel growth, invested in Field & Stream and we've also returned over $410 million to shareholders through share repurchases and dividends. Total inventory increased

12.4% at the end of this year's third quarter, compared to the end of last year's third quarter, including inventory to support the growth of our Field & Stream stores, and inventory for the upcoming holiday season. We are comfortable with the level and the quality of our inventory.

Net capital expenditures in the third quarter were approximately $78 million, or $121 million on a gross basis. This compares to a net capital expenditures of $77 million, or $101 million on a gross basis in the third quarter of 2013. Turning now to our capital allocation strategy, as Ed mentioned, we repurchased an additional $75 million of our stock in the third quarter of 2014, bringing our fiscal 2014 repurchases to $200 million. As we've discussed in the past, we expect to use our repurchase program to both offset dilution, and opportunistically repurchase shares. Since we started our $1 billion authorization at the beginning of 2013, we have repurchased over $455 million of stock and have approximately $545 million remaining under the authorization.

Now turning to our guidance, as Ed outlined, we believe we have the merchandising and the marketing plans in place to drive sales during this important holiday season. Our fourth quarter same-store sales and EPS guidance also reflects our expectations for our promotional holiday. For the fourth quarter, we anticipate consolidated earnings per diluted share in the range of $1.18 to $1.28. Consolidated same-store sales are expected to be in the range of 1% to 3% compared to a 7.3% increase in our shifted comp in the fourth quarter of last year.

Gross profit margins are expected to decrease as a result of planned promotional activities and from an increase in shipping expense as a percentage of sales, due to the continued growth of our eCommerce business. SG&A expenses as a percentage of sales are expected to leverage and we will closely monitor our spending plans. For the full-year 2014, we now expect consolidated non-GAAP earnings per diluted share in the range of $2.75 to $2.85 and same-store sales to increase in the range of 1% to 2%. Gross margin is expected to decline and SG&A is expected to leverage slightly. Pre-opening expenses are expected to be higher due to the increase in store openings compared to last year, including our Field & Stream stores.

In summary, our third quarter earnings were at the higher end of our guidance. Excluding the headwinds in golf and hunting, the rest of our business delivered a 4.6% comp increase. We also continued to demonstrate our commitment to returning capital to shareholders, repurchasing $75 million in stock in Q3. As we look to Q4, we believe we are well positioned to drive sales growth with the strategies we have in place. Our guidance reflects these strategies combined with the expectation of a promotional retail environment. This concludes our prepared comments and I'd like to thank you for your interest in DICK'S Sporting Goods.

Operator, please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, we will now begin the question-and-answer session. [Operator Instructions] And our first question is from Seth Sigman of Credit Suisse, please go ahead.

Seth I. Sigman
Credit Suisse Securities (USA) LLC (Broker)

Q

Okay, great. Thanks very much. I wanted to just first focus on the traffic commentary, so down 1% this quarter. Maybe you can just elaborate on what's driving that? It seems like it's a little bit of a change in the recent trend. And I know you don't typically talk about trends within the quarter, but was there may be a weather issue? Or something related to that that maybe pushed some sales into Q4? Any commentary there would be helpful.

Edward W. Stack
Chairman & Chief Executive Officer

A

I wouldn't say there was much of a weather change. And the big issue around traffic is going to be around that gun and ammunition business. The third quarter and fourth quarter are important quarters here. And that business just hasn't recovered as quickly as we thought it would.

Seth I. Sigman
Credit Suisse Securities (USA) LLC (Broker)

Q

Okay. So just to follow up on that, if you look at the categories excluding hunting and golf, up 4.6%, it did seem to moderate a little bit versus prior quarters. Any more color on why that may have moderated?

Edward W. Stack
Chairman & Chief Executive Officer

A

We kind of started some of these moves earlier last year when we tested this. But a big part of that was around the World Cup. And the World Cup, as we talked about, drove a pretty good comp in the second-quarter.

Seth I. Sigman
Credit Suisse Securities (USA) LLC (Broker)

Q

I see, okay. And just focusing on the space reallocation work, the improvements that you're seeing in that part of the business that you've made some changes, do you feel like you're getting incremental traffic there or are you just starting to see better conversion? And then as you look to 2015, is there another phase of the space reallocation work to come?

Edward W. Stack
Chairman & Chief Executive Officer

A

So, I think we are getting both better conversion and I think we are starting to get a reputation of having this product and I think it is starting to generate some additional traffic. We are not going to be changing space significantly next year versus what we have done this year, but I think that the content we have coming in will be better next year than it has been this year, which was pretty good this year. We think we have just got that extra experience. We expect to see gains there next year also.

Seth I. Sigman
Credit Suisse Securities (USA) LLC (Broker)

Q

Okay, great. Thanks for the color and, Joe, best of luck.

Joseph H. Schmidt
President & Chief Operating Officer

A

Thanks, Seth.

Operator: Our next question is from Robby Ohmes of Bank of America Merrill Lynch. Please go ahead.

Robert F. Ohmes
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Good morning, guys.

Edward W. Stack
Chairman & Chief Executive Officer

A

Hey, Robby.

Joseph H. Schmidt
President & Chief Operating Officer

A

Good morning, Robby.

André J. Hawaux
Chief Financial Officer & EVP-Administration

A

Hey, Robby.

Robert F. Ohmes
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

And, Joe, best of luck, as well.

Joseph H. Schmidt
President & Chief Operating Officer

A

Thanks, Robby.

Robert F. Ohmes
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

I think a couple of you mentioned the promo environment being baked into the guidance for the fourth quarter. Could you give us a little more help on how the promo environment is the same or different from last year? And then if possible, some commentary on whether you're seeing, say in Team Sports, any improvement, competitively, coming out of Walmart or Target, sort of the discount end. And then similarly, I think Macy's is taking on more apparel from Nike and Under Armor and sort of how you see that playing out in your promotional environment comments for the fourth quarter. Thanks.

Edward W. Stack
Chairman & Chief Executive Officer
A

Sure, Robby. So from Macy's, they have certainly made some moves in that area, but I think the moves that we did have counteracted any of the gains that Macy's may be taking. So, I think, some market share that Macy's may be getting isn't coming from us, with the changes that we made. And we really haven't seen any meaningful change in Walmart from the Team Sports standpoint. So, all of that is – we really haven't seen a big change. And Robby, I'm sorry, what was the first question?

Robert F. Ohmes
Merrill Lynch, Pierce, Fenner & Smith, Inc.
Q

So when you guys are talking about the guidance assumes a promotional environment. So it's not coming from Macy's or Walmart, sort of maybe help us understand how it is the same or different from last year's holiday?

Edward W. Stack
Chairman & Chief Executive Officer
A

Well, I think that where we see some promotional aspect is going to be around that hunt business, it's gotten to be a little bit more promotional. And I think that, depending on how the weather plays out, I think people are going to be very promotional to clear out those seasonal products. And we want to make sure that we are moving right along with the rest of the market there. A lot of retailers have talked about how they are going to be promotional based on the cautious consumer and we just need to be cognizant that that environment is out there.

Robert F. Ohmes
Merrill Lynch, Pierce, Fenner & Smith, Inc.
Q

Got it. Thanks very much, Ed.

Edward W. Stack
Chairman & Chief Executive Officer
A

Thanks, Robby.

Operator: Our next question is from Brian Nagel of Oppenheimer. Please go ahead.

Brian W. Nagel
Oppenheimer & Co., Inc. (Broker)
Q

Hi, good morning. Couple of quick questions if I could. First off, on the gross margin side and particularly with respect to golf [indiscernible] (21:05) I guess pretty significant markdowns in the golf category in Q2, was there any impact here in Q3 of the flow of that product then after it was marked down on your gross margins?

Edward W. Stack
Chairman & Chief Executive Officer
A

No.

André J. Hawaux
Chief Financial Officer & EVP-Administration
A

No.

Brian W. Nagel
Oppenheimer & Co., Inc. (Broker)

Q

So, and then, as far as golf, are the markdown basically done there, then?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah. Our inventory is in great shape. I think the inventory at the vendors is in better shape than it has been. So yeah, we don't see any meaningful – those markdowns around golf are behind us.

Brian W. Nagel
Oppenheimer & Co., Inc. (Broker)

Q

Okay, thanks. And then the second question I have with respect to just the comps, you obviously gave us the guidance and talked some color around that too. But conceptually how do you – you do have a much more difficult comparison in the fourth quarter. How do you think about managing your sales and your guidance around that difficult comparison?

Edward W. Stack
Chairman & Chief Executive Officer

A

We take a look at opportunities where we think that we can drive business. We have taken a look at that kind of the trends that we are having today. Some of these categories that are doing quite well, the categories that are doing quite well are big, important [indiscernible] (22:27), so the women's business, we think that youth business, we think the Team Sports business, we think the comps, [indiscernible] (22:37) moderate and we thought it will be relatively flat, maybe down a little bit, maybe up a little bit. But we have taken a look at this and we are pretty confident of where these comps are going to be.

Joseph H. Schmidt
President & Chief Operating Officer

A

And Brian, it is important to know we will also benefit again. We continue to benefit from this space allocation. Remember, we got that done mostly by the back to school timeframe. So year-over-year, as you look at what we are presenting to consumers, it's going to be a much more, as Ed has mentioned, a much more robust product offering in categories that are growing, specifically around the youth and the women's apparel.

Brian W. Nagel
Oppenheimer & Co., Inc. (Broker)

Q

Got it. Thank you very much. Appreciate it.

Operator: Our next question is from Simeon Gutman of Morgan Stanley. Please go ahead.

Simeon Ari Gutman
Morgan Stanley & Co. LLC

Q

Thanks, good morning and also best of luck to you, Joe. One follow-up on the promotional environment, which you've called out all year and I know you just called it out maybe for the fourth quarter. Can you give us a sense of how things are playing out different than how you're planning for things promotionally? Meaning, how much is being improvised promotionally versus what you're executing against plan?

Edward W. Stack
Chairman & Chief Executive Officer

A

Right now, it's been pretty close to what we have planned it to be. We've gotten a little bit more aggressive at times in the hunt category than we had anticipated. So, other than the gun and ammunition business, the promotional environment that we have executed against has been pretty close to our plan.

Simeon Ari Gutman
Morgan Stanley & Co. LLC

Q

Right, okay. So it doesn't sound like it's gotten hotter or colder. And then with respect to golf, you mentioned your inventories are in great shape. But what kind of medicine the manufacturers take, how are they looking at the category now? I guess you can't control how much they produce, but you can obviously control what you take in. So, in other words, how do you avoid the markdown risk, let's say, if the season is okay, but they still overproduce?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, I think that there is certainly a chance of that, although I don't think that that's going to happen. I think the manufacturers have done a very good job of getting their inventory cleaned out. The new product offerings are a little bit more focused than they have been in the past. The conversations we've had about the next iteration of products or product launches after what's happening this fall and early spring, there is not people rushing to get product out there to drive sales. I think they are going to kind of take – everybody's talked about that the business needs to shrink in order to be more profitable, and I think that's going to happen. So I think the manufacturers are much more disciplined. The retailers are much more disciplined and I think the golf business is going to be an okay business. I don't think it is going to be a great business, but it's going to be an okay business, and we'll kind of hit bottom here in the next quarter probably, and we think that we will see increased profitability going into next year.

Simeon Ari Gutman
Morgan Stanley & Co. LLC

Q

Okay. Thank you very much.

Operator: Our next question is from Camilo Lyon of Canaccord Genuity. Please go ahead.

Camilo R. Lyon
Canaccord Genuity, Inc.

Q

Thanks, good morning, everyone. Ed, just curious on the golf business as well, are you seeing any divergent trends amongst the brands? Or is it pretty broad-based comparable trends across all the brands?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, I think there's some brands that have moved market share around. I won't comment on those, but there are some brands that have moved market share. But we don't see any brand really falling off – that's really taking big market share. We don't see any other brand really getting hurt significantly.

Camilo R. Lyon
Canaccord Genuity, Inc.

Q

Okay. Ed, I'm just trying to get a sense as to once you're kind of clear of the inventory, it sounds like you are already actually, that in the alignment of the inventory at your stores, of the better performing brands, could actually result in some positivity in the category. Is that a possibility next year?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, I don't want to get ahead of ourselves and kind of say what we think is – give guidance to what we think the golf business is going to be. But, as I said, I think it's going to hit bottom. It may have already hit bottom. But because some of the new product launches have done quite well with the Titleist 915 from pre-sales standpoint, some of the things that we have done with the TaylorMade irons. So we think it is going to be a more profitable year next year. We'll just leave it at that.

Camilo R. Lyon
Canaccord Genuity, Inc.

Q

Okay. Fair enough. And then, just on the opening price point strategy that you engaged in a few quarters ago. If you could just update us on the – on how that strategy is unfolding and if the consumer is really responding to that and being drawn to that opening price point and if you – you feel you need to expand the breadth of the products that are on that OPP strategy to best compete with some of your more direct competitors.

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah. No, we really – the OPP strategy we put in place we feel that we've have done a very good job. We don't think we need to expand it significantly. There is a couple of areas that we're going to – we will put some more OPP in, but it is very, very, very little. We are really pleased with where we are at right now.

Camilo R. Lyon
Canaccord Genuity, Inc.

Q

Great. And then just a final question on – the other retailers have spoken about cold weather products selling early in the season and would've expected. Just curious to get your take on that and if you're seeing that as well, and how you feel you're positioned from an inventory perspective to capture and capitalize on that category in the fourth quarter.

Edward W. Stack
Chairman & Chief Executive Officer

A

We won't specifically talk about what's going in in the fourth quarter, but we feel that we are very well positioned. As we have talked about before, we have got partnership orders with a number of vendors that we have got goods sitting out there that are reserved for us if we need it, we can take it. So, as the weather that we have continues, we'll be able to chase merchandise, but if it warms up, it's still a long quarter, if it warms up and – we have got the ability to not take that product so that we can control those inventories and control those markdowns.

Camilo R. Lyon
Canaccord Genuity, Inc.

Q

Perfect, thanks so much, all the best in the fourth quarter and Joe, all the best to you as well.

Joseph H. Schmidt
President & Chief Operating Officer

A

Thank you.

Operator: Our next question is from Kate McShane of Citi Research. Please go ahead.

Katharine McShane
Citigroup Global Markets Inc. (Broker)

Q

Hi, thank you. And, Joe, best of luck.

Joseph H. Schmidt
President & Chief Operating Officer

A

Thanks, Kate.

Katharine McShane
Citigroup Global Markets Inc. (Broker)

Q

I was wondering if you could give any insight into how footwear performed during the quarter relative to the core comp? And if there were any new items for this upcoming holiday season that you think is unique and could be a driver, like GoPro or something else?

Edward W. Stack
Chairman & Chief Executive Officer

A

So, we won't get into just what the footwear business has been specifically, but there has been – I'm pleased with our footwear business. We think that some – there are some categories of business that we have got for the fourth quarter that we are pretty excited about. That whole electronics category around GoPro, the Fitbit wearables we continue to be extremely enthusiastic about and has been performing quite well.

Katharine McShane
Citigroup Global Markets Inc. (Broker)

Q

Okay, that's great. And then do you have any commentary or thoughts around how your business might be impacted by the West Coast port strike over the next quarter or two?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yes, so at least for the fourth-quarter, most of the products that we need we've got. We've made some modifications in our shipping strategies to try to avoid the West Coast, but it could have an impact right now. We don't really see anything meaningful.

Katharine McShane
Citigroup Global Markets Inc. (Broker)

Q

Okay. Thank you.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure.

Operator: Our next question is from Paul Swinand of Morningstar. Please go ahead.

Paul Swinand
Morningstar Research
Q

Good morning. I wanted to ask a question about the real estate in the Field & Stream. I know in the past even at the Analyst Day you said that it was similar demographics and often you're finding the same type of boxes near a DICK's store. Now that you've got a few more openings under your belt, both for DICK's concept and the Field & Stream, is the availability and the pricing of real estate there that you can continue with the opening plans over the next say five years, do you think?

Edward W. Stack
Chairman & Chief Executive Officer
A

Yes. No problem at all.

Joseph H. Schmidt
President & Chief Operating Officer
A

Yes.

Paul Swinand
Morningstar Research
Q

And you're still thinking that it's the same demographic, the same area sort of like the Cranberry store where it's right in the same shopping area? Is that the ultimate strategy?

Edward W. Stack
Chairman & Chief Executive Officer
A

Yes, so the demographics are different between the two brands, but the real estate strategy and the area that we put them in is relatively similar. So, where we are in Cranberry is a perfect example, kind of where we are down in the South Hills of Pittsburgh is a perfect example. In Columbus, Ohio, we've got a DICK's store lined up right next to a Field & Stream store and both the stores we're really pleased with their performance so far.

Paul Swinand
Morningstar Research
Q

Are there some geographic areas where although there is a DICK's store, it just wouldn't support a Field & Stream?

Edward W. Stack
Chairman & Chief Executive Officer
A

Sure, there is definitely some areas like that and perfect example would be Southern California.

Paul Swinand
Morningstar Research
Q

Okay, can you give us any – and is that about 20% of the base? Or what would that exclude?

Edward W. Stack
Chairman & Chief Executive Officer
A

I'd say 20% is probably a pretty decent number.

Paul Swinand
Morningstar Research

Q

Okay. Great. Just trying to get little more sense.

Edward W. Stack
Chairman & Chief Executive Officer

A

20% that you would exclude.

Paul Swinand
Morningstar Research

Q

Yes, exactly. And then just one that's a quick housekeeping question. I'm not trying to be slick here, but the fourth quarter guidance is on a 120 million shares and you ended the quarter with a 120 million diluted shares. But then it looks like the full-year contemplates about 1.2 million shares reduction to 118 million shares, 118.8 million shares in the fourth quarter. So there's about two different share count basis?

André J. Hawaux
Chief Financial Officer & EVP-Administration

A

I think the share count basis are slightly different. I think you should be looking at – we don't have a number of 118 million shares in there. I think it is 121 million shares is what you should look at your number.

Paul Swinand
Morningstar Research

Q

[indiscernible] (33:26) to get down to an weighted average of 121 million shares a year, and maybe it's just the timing of when it was bought back in the quarter, but it looks like you're going to buy back another at least 1 million shares in the fourth quarter by the full-year guidance.

André J. Hawaux
Chief Financial Officer & EVP-Administration

A

No. You should use the 120 million shares for your Q3 number and 121 million shares for the full-year number as you look at that.

Paul Swinand
Morningstar Research

Q

Okay. All right. Thank you.

Operator: Our next question is from Scot Ciccarelli of RBC Capital Markets. Please go ahead.

Scot Ciccarelli
RBC Capital Markets LLC

Q

Hey, guys, Scot Ciccarelli. I know we've been kind of talking about golf and hunting for the last couple quarters. Can we get an update on where we stand in terms of the vendor store roll outs? And is it fair to assume that these vendor store areas still generate higher sales and margins than other parts of the store or has any of that changed at this stage?

Edward W. Stack
Chairman & Chief Executive Officer

A

You're talking about vendor shops – you're talking about the Nike shops, T&F, and Under Armour?

Scot Ciccarelli
RBC Capital Markets LLC

Q

Yes. Correct.

Edward W. Stack
Chairman & Chief Executive Officer

A

Yes, they are still doing great. We continue to invest in them and we're very pleased with those. They have been very productive.

Scot Ciccarelli
RBC Capital Markets LLC

Q

And do you have an update in terms of numbers or penetration percentages?

Joseph H. Schmidt
President & Chief Operating Officer

A

Yes. Let me give you that, Scot. So right now we opened an additional 24 Nike Fieldhouse shops in Q3. That brings the total to 342. We opened up an additional 28 UA shops. That brings the total to 287. We've got 89 permanent T&F shops, but as you know, with the season in Q4, we'll put a 90 seasonal outpost shops that are happening in Q3. Those are I think the bigger brands that you look at.

Scot Ciccarelli
RBC Capital Markets LLC

Q

All right, that's very helpful. And then just a housekeeping item here. Can you talk about expected debt leverage targets, just to help us better understand your capital allocation plans? Obviously, the revolver has been taking on a little bit more capacity. Is there a more permanent plan on that front?

Joseph H. Schmidt
President & Chief Operating Officer

A

No. Right now we're using our revolver to do the things that we need to do. We have not discussed and we are not discussing on this call what our leverage strategy is going to be.

Scot Ciccarelli
RBC Capital Markets LLC

Q

Okay. Got it. Thank you.

Operator: Our next question is from Stephen Tanal of Goldman Sachs. Please go ahead.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Thanks a lot. Good morning, guys. I wanted to follow-up on the hunting business. The pressure you're seeing there, is that more on ammunition or more on guns? And I'm sort of curious how you frame it versus the mix data that we're all looking at, which obviously would suggest October was a pretty strong month for firearms specifically.

Edward W. Stack
Chairman & Chief Executive Officer

A

We are seeing a little bit of pressure on guns and some pressure on ammunition too. So it's actually both.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Got it. And your expectations for the fourth quarter, I know you've said you expect the hunting business to be flattish. How does that compare to your prior expectations for the business?

Edward W. Stack
Chairman & Chief Executive Officer

A

Pretty close.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Got it. Okay. And then switching gears a bit. I'm curious, October was pretty warm in most of the country. I was wondering if you care to comment on the impact of weather in the third quarter and how it might be affecting your fourth quarter outlook?

Edward W. Stack
Chairman & Chief Executive Officer

A

I don't think the weather had a big impact one way or the other.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Got it. And sure. I guess the cold weather is likely a little bit helpful here. I guess, was there much variability in cost through the quarter? Or was it pretty consistent [indiscernible] (36:51)?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yes, we've never commented on what's happened through the quarter. Our comp is at – we comped at 1.1% for the quarter, which we had hoped we'd do a little bit better than that, but because of the gun and ammunition business, was really the drag on the comp number.

Stephen V. Tanal
Goldman Sachs & Co.

Q

[indiscernible] (37:11), sure. Understood. And then last for me, you guys mentioned two closings of Galaxys in the fourth quarter. I'm curious how many total leases are coming due in the quarter?

Edward W. Stack
Chairman & Chief Executive Officer

A

Do you have the number?

Joseph H. Schmidt
President & Chief Operating Officer

A

Yes, I do. We've got about 63% of our Golf Galaxy stores are coming up for option over the next three years.

Edward W. Stack
Chairman & Chief Executive Officer

A

So what we've got in the quarter, I'm not sure. But we're not closing any other than those two.

Stephen V. Tanal
Goldman Sachs & Co.

Q

Okay. Fair enough. Thank you, guys.

Operator: Our next question is from Sean McGowan of Needham & Co. Please go ahead.

Sean P. McGowan
Needham & Co. LLC

Q

Thank you. Hi, guys. I wanted to just stack on a little bit onto Scot's question earlier. Can you give us some sense of what the revolver will be at year-end? Do you expect it to be cleaned up at year-end?

Joseph H. Schmidt
President & Chief Operating Officer

A

Yes, we do. We expect to exit the year without any borrowings on our revolver, as we have in the last several years. We typically, because of getting ready for the holiday, we typically are into our revolver usually in Q4, a little bit in the early part, and we come out clean.

Sean P. McGowan
Needham & Co. LLC

Q

Okay. Thank you. And then a couple of Field & Stream questions. Can you give us a sense of what the inventory build year-on-year would have been for the whole chain, if you exclude inventory build related to the Field & Stream stores?

Joseph H. Schmidt
President & Chief Operating Officer

A

Yes, it would be about 8%.

Sean P. McGowan
Needham & Co. LLC

Q

8% Okay. And then, on Field & Stream, so you got quite a number of opens over the last 12 plus months. When you say these last months were up to your expectations, were those expectations raised by the strong performance of the first couple stores? Or were your expectations the same that they were before you opened the first store?

Edward W. Stack
Chairman & Chief Executive Officer

A

We've had the same expectations.

Sean P. McGowan
Needham & Co. LLC

Q

Okay. Great. Thank you.

Edward W. Stack
Chairman & Chief Executive Officer

A

Thanks.

Operator: Our next question is from Lee Giordano of CRT Capital. Please go ahead.

Lee John Giordano
CRT Capital Group LLC

Q

Thanks. Good morning, everybody. Can you talk a little more about the remodel programs and what the remodels entail currently and if you're seeing a nice benefit in comps as you remodel these stores? Thanks.

Edward W. Stack
Chairman & Chief Executive Officer

A

Yes, we've seen a big benefit when we've remodeled the stores.

Lee John Giordano
CRT Capital Group LLC

Q

What exactly do you do when you actually remodel? Do you put new shop-in-shops in? And how much do you typically spend on a remodel?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yes, what we do, we look at shop-in-shops as an opportunity. We look at some of the [ph] portal (39:50) walls as an opportunity. The shared service footwear deck in the front-end are the primary areas that we look to enhance that. That area down the middle of the store that really focuses on those businesses that are working pretty well for us around the athletic apparel and shops, youth apparel and footwear. But we've seen some pretty good results out of these remodeled stores. And as far as costs for the remodel, we are not going to get into store specifics.

Lee John Giordano
CRT Capital Group LLC

Q

Okay. And then any updates on the fitness category? I know you're taking out some space there, but any improvements or deceleration there? Thanks.

André J. Hawaux
Chief Financial Officer & EVP-Administration

A

Yes, we've actually been very happy about what's happened with our fitness business. We've actually – while we're not going to give specific numbers – this past quarter we actually comped positive in that space and have done so over the last several quarters. So we're pretty happy about what we've done in terms of reducing that space and still bringing the offering that consumers want.

Lee John Giordano
CRT Capital Group LLC

Q

Thank you.

Operator: Our next question is from Mark Miller of William Blair. Please go ahead.

Mark R. Miller
William Blair & Co. LLC

Q

Hi. Good morning and good luck, Joe.

Joseph H. Schmidt
President & Chief Operating Officer

A

Hey, Mark. Thank you.

Mark R. Miller
William Blair & Co. LLC

Q

Yes, I know the formal 2015 guidance comes with the fourth quarter, but at a high level, could you give us some perspective about how we approach next year? You talked about golf being better. But maybe you could add some of the other puts and takes you see. And then specifically, in eCommerce, how do you view that as an investment next year as compared to what you're investing this year?

André J. Hawaux
Chief Financial Officer & EVP-Administration

A

Mark, you answered the question right when you started. We're not going to provide guidance for fiscal year 2015 on the third quarter call. We will do so on the fourth quarter call, as is our typical norm. So, I'll leave it at that.

Edward W. Stack
Chairman & Chief Executive Officer

A

From an eCommerce standpoint, we'll continue to invest in eCommerce, probably about relatively same as what we've done this year. We continue to be enthusiastic about what we're seeing from our eCommerce business. And as we continue to move through this process of exiting what we're doing with GSI, we're going to continue to make these investments and we're really pleased with what's going on there right now.

Mark R. Miller
William Blair & Co. LLC

Q

Okay, great. Thanks. And then on Field & Stream, can you give us some sense of what penetration has been so far for private brand? And where you think that can go? And then if you can remind us, what are the other factors there that you think can help improve margins relative to the core DICK's business?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yes, sure. The private brand penetration is hovering around 7% right now. And as far as where we see the opportunity, it's too early to comment on specific performance, but we think there is an opportunity to continue to refine our assortment around the products and brands that the customers are looking for. We continue to test and invest in new opportunities. Some of the things that we've tested, expansion of workwear, a western boot shop, general store area, and we think that's going to drive box productivity and margin rates as well. So that's just some of the things that we're exploring in the Field & Stream stores.

Mark R. Miller
William Blair & Co. LLC

Q

Then final question for me. You've got leverage on admin and payroll in the quarter. I was encouraged to see that, given you've been I thought making somewhat greater investment in service in the store. So can you explain how you accomplished that? Thanks.

Joseph H. Schmidt
President & Chief Operating Officer

A

Certainly. And it didn't come at the expense of not putting the dollars and the labor in the store. Actually, it came out of a lot of our administrative costs here in Pittsburgh. And our associates are being mindful in terms of how we do that and understand how important that is to the organization as we continue to drive to delivering our EPS goal. So I think a lot of it came out of the headquarter piece. We continue to invest in our stores.

Operator: Our next question will come from Sam Poser of Sterne, Agee. Please go ahead.

Sam Poser
Sterne, Agee & Leach, Inc.

Q

Thank you for taking my call. I wanted to just follow-up on that. Can you give us any color on how the level of service or the number of people working in the stores may have changed over the last year or so? Or how you've realigned?

Edward W. Stack
Chairman & Chief Executive Officer

A

There is not a significant change. Actually, we've put some more service into the stores, which we talked about last year that we reinvested in some payroll dollars. So, if anything, it's remained relatively constant to up a little bit.

Sam Poser
Sterne, Agee & Leach, Inc.

Q

And then how should we think about – I mean, I know you won't talk about next year, but how do we think about the sustainability of how much lower can the overall SG&A go as a percent of sales if you sustain like a low-single digit comp?

Edward W. Stack
Chairman & Chief Executive Officer

A

Can you repeat that again, Sam?

Sam Poser
Sterne, Agee & Leach, Inc.

Q

I guess, like how long can we expect leverage on low-single digit same-store sales?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, we're also opening up additional stores, Sam, so that gives us some additional dollars to leverage those fixed costs that we have here in the home office and our distribution centers. So, there is still leverage even with low-single digit comps.

André J. Hawaux
Chief Financial Officer & EVP-Administration
A

And, Sam, I think it's also important to know one of the things we started to articulate to our investor base is that you have to look at the leverage factors around not only comp but around our total sales, including the new stores that we opened. And the other things we're doing as we continue – and Joe pointed this out – as we continue to leverage ship-from-store and things like that, we're continuing to get a lot of leverage from the store labor that we deploy against those services as well. So I think you have to look at it in totality.

Sam Poser
Sterne, Agee & Leach, Inc.
Q

Thank you. And then just one other thing. The smaller market stores, could you give us a status update, how many there are and how that's doing and where your plans are there looking ahead?

Joseph H. Schmidt
President & Chief Operating Officer
A

Yes, I would think of our smaller store growth somewhere in the neighborhood of 25% to 30% on an annual basis.

Edward W. Stack
Chairman & Chief Executive Officer
A

And the stores that we've opened up, Sam, are doing extremely well. We're really pleased with this program so far.

Sam Poser
Sterne, Agee & Leach, Inc.
Q

Are you seeing better sales per square foot in those smaller stores than you do in the larger stores as you think about it in the bigger picture?

Edward W. Stack
Chairman & Chief Executive Officer
A

Slightly better. Not significantly, but a little bit. But some of the costs associated with those stores are less costly. So, less rent, less marketing expense, but we're very [indiscernible] (46:54).

Sam Poser
Sterne, Agee & Leach, Inc.
Q

If I could do one more just on Golf Galaxy. What are you expecting out of that? I know you're closing a couple in Q4. I mean when you think ahead, what is keeping you involved in that, given the weakness in golf, wouldn't you expect your golf business to improve at DICK's if you took a more active approach in shutterings more of those stores?

Edward W. Stack
Chairman & Chief Executive Officer
A

Sam, we've answered this question on a number of occasions of how important the Golf Galaxy business is to our total golf business. We have indicated how important that is to our vendor relations. And also would we get some benefit at DICK's if the Golf Galaxy store is closed? Yes, we probably would. The ones that are right next to a DICK's store. But we think the market share is really important and we do think that the golf business is going to bottom and that it's going to be more profitable. So we are not exiting – and we've been very clear about this – we are not exiting the golf business and we are not exiting the Golf Galaxy business.

Sam Poser
Sterne, Agee & Leach, Inc.

Q

Thank you and have a great holiday. And good luck, Joe.

Joseph H. Schmidt
President & Chief Operating Officer

A

Thank you.

Edward W. Stack
Chairman & Chief Executive Officer

A

You do the same.

Operator: Our next question is from Michael Baker of Deutsche Bank. Please go ahead.

Michael A. Baker
Deutsche Bank Securities, Inc.

Q

Thanks. A couple questions. First, on that golf business, could you talk about, by the year end, what percent of your total sales it will be, what was it a year ago, where is it going?

And then, related to the golf business, you're implying down 8.9%, or I guess you said down [indiscernible] (48:27) Golf Galaxy 8.9%. I think it was down less than that in the second quarter because you said it was better than the Golf Galaxy. So do I interpret that right that the year-over-your trends in golf have gotten worse in the third quarter?

Edward W. Stack
Chairman & Chief Executive Officer

A

Not a lot. If you remember, we got very promotional in the second quarter that we discussed that we got very promotional from a price standpoint to try to clean through this inventory, and we've cleaned through the inventory. So, we're very pleased with the inventory levels we have in golf right now. We think golf will continue to be a smaller percent of our business, which we've talked about, because other areas of the business are going to grow at a faster rate. Golf, we think, is still going to struggle a little bit. We think, as I said, I think we're going to hit probably the bottom here in this quarter. And I think going into next year, the golf business is going to be meaningfully more profitable than it has been over this past year. And we're somewhat enthusiastic about the – cautiously optimistic, I should say, on the new products that some of the brands are bringing out.

Michael A. Baker
Deutsche Bank Securities, Inc.

Q

Okay. And then a similar type question. Well, a different question. On Field & Stream, so hunt not quite as good and you're a little bit concerned in the fourth quarter there. Does this change at all your thinking on the long-term viability of the Field & Stream stores or is it just a little bit of a softness here and nothing to worry about too much?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yes. We think the hunt business is a little bit different than the golf business. We think the hunt business is rebounding. We indicated that we think it will be flattish in the quarter. So we think this is more of a short-term issue than a long-term issue. As we look at our broader outdoor business, the broader outdoor business has been very good, remains very good and we continue to be enthusiastic about opening up Field & Stream stores.

Michael A. Baker
Deutsche Bank Securities, Inc.

Q

Okay. One more if I could. On the merchandise margin, it was down 53 basis points, better than it was last quarter, but you said it wasn't really impacted by golf. So what is impacting the merchandise margins? Is it the markdowns in the hunt business? And what is the expectations for merchandise margins in the fourth quarter? I know you said gross margin is down. Is that down less of an impact for merchandise margins? Thanks.

Edward W. Stack
Chairman & Chief Executive Officer

A

We took some – as I said, we did get a bit aggressive in the hunt category to try to drive business. We took some markdowns to clean up some of this inventory, some of that around golf, some around some other areas. But again, we're really pleased with our inventory levels. Our clearance levels are relatively consistent with what they have been in the previous third quarter. So, we've kind of got these markdowns behind us, and there may be some margin rate pressure from the promotional environment out there, but it won't be because of markdowns that are required.

Michael A. Baker
Deutsche Bank Securities, Inc.

Q

Okay. Thank you. Appreciate all the color.

Operator: Our next question is from Matt Nemer of Wells Fargo. Please go ahead.

Matt R. Nemer
Wells Fargo Securities LLC

Q

Good morning. Thanks for taking my questions. First on the footage reallocation, I know it's early, but could you talk to what you're seeing in terms of sales and gross profit productivity in that space relative to what it was before? And then is it fair to assume that 100% of that is incremental to the other apparel space in the store?

Edward W. Stack
Chairman & Chief Executive Officer

A

We're pleased with what it's doing in incremental. It's incremental to the space of what we reallocated. It's doing more business than what we took out, so to speak. So, yes, we think it's certainly incremental and accretive.

Matt R. Nemer
Wells Fargo Securities LLC

Q

I guess, another way, do you think that that's stealing some sales from other areas in the store? Or is she going in and buying something in the previous apparel footage as well as the new apparel footage?

Edward W. Stack
Chairman & Chief Executive Officer

A

Oh, yes. That's incremental. Certainly, she is buying more products, she's coming in more often, it's incremental.

Matt R. Nemer
Wells Fargo Securities LLC

Q

Okay. And then, secondly, your eCommerce performance was very strong in the fourth quarter over the last couple of years, and I'm just wondering if you think that will be a big driver again in the fourth quarter of this year as it was in the past few years?

Edward W. Stack
Chairman & Chief Executive Officer

A

I think it will be meaningful. We're starting to move off and get to a bigger base. So it will be a little bit more difficult to have the same kind of comp gain, but we're looking for a pretty solid comp gain in our eCommerce business.

Matt R. Nemer
Wells Fargo Securities LLC

Q

And then, just lastly, housekeeping. Your preopening per store was down, which is surprising. I would think that the Field & Streams have pretty high preopening expense. So just wondering if you can comment on that?

Joseph H. Schmidt
President & Chief Operating Officer

A

Yes, Matt, I'll go back and take a look at that. You're right that our Field & Streams, typically, our preopenings and our grand openings are slightly larger because we create a lot of theater around these locations. As you know, the brand is being introduced in many, many markets. So, I'll go back and take a look at that. That was probably just timing is the only thing I can think of. I can't imagine that your math isn't right. So it's got to be timing quarter-in, quarter-out.

Matt R. Nemer
Wells Fargo Securities LLC

Q

Okay. Thanks so much and have a great holiday.

Edward W. Stack
Chairman & Chief Executive Officer

A

Thank you.

Operator: Our next question is from Peter Benedict of Robert W. Baird. Please go ahead.

Peter S. Benedict
Robert W. Baird & Co., Inc. (Broker)

Q

Hey, guys. Thanks for taking the questions. You're spending a lot of time here. We appreciate it. Just following up on couple questions, just on gross margin, Andrè. So, when we think about that in aggregate in the fourth quarter, do you think the declines will be on par with what we saw in the third quarter? Or should we continue to see some moderation in the pace of decline in gross margin?

André J. Hawaux
Chief Financial Officer & EVP-Administration

A

I think you should see a moderation in decline. As I talked about on our Q2 call, our Q3 results were going to be better. And I do believe that our Q4 results will be in the aggregate gross margin better than you saw in the Q3. And the composition is going to be a little bit different. Obviously, our shipping expenses will be higher as a percentage, given the weight that our eCommerce business is in the fourth quarter. But I think you'll see some potential positive movement on occupancy, leverage and things like that. So I think better to answer your question, the components will be a little bit different, given the weight of the various businesses in the quarter.

Peter S. Benedict
Robert W. Baird & Co., Inc. (Broker)

Q

Sure, okay. That makes sense. Thanks. And then just circling back to the golf category, I know you're saying potentially bottoming here. Just as we think about the fourth quarter, I assume you guys are expecting continued declines in comps. Do you expect them to moderate, expect them to be at kind of the same levels you saw here in the third quarter? Any kind of color on what you're planning for golf from a comp perspective in the fourth quarter would be helpful. Thank you.

Edward W. Stack
Chairman & Chief Executive Officer

A

Yes, I think that the comps in the fourth quarter for golf are going to be somewhat related to weather. So, if guys are out playing golf, they are going to be a little better than if they are not playing golf. But this is our smallest quarter for golf and especially in Golf Galaxy, it's the smallest quarter. And one of the things that I'd like to make sure that everyone understands, we've had a lot of conversation about the golf business and why are we staying in Golf Galaxy and all that. I just want to make everybody aware, Golf Galaxy is profitable. Although the comps have been difficult, Golf Galaxy is a profitable operation and it is accretive to earnings. And sometimes I think people might lose sight of that. But the comps in golf they might be relatively the same, they might moderate a little bit, but I think as we go into next year, they will be better than they have been this year.

Peter S. Benedict
Robert W. Baird & Co., Inc. (Broker)

Q

Okay. Thank you very much.

Edward W. Stack
Chairman & Chief Executive Officer

A

Sure.

Operator: Next question is from Michael Lasser of UBS Investment Bank. Please go ahead.

Michael Lasser
UBS Securities LLC

Q

Good morning. Thanks a lot for taking my question. My first one is, Ed, earlier in the call, you mentioned that you're not planning any space reallocation for next year. Is that because you think the categories that you addressed this year were the only ones that were affecting the business? Or the business won't really benefit from having a more dynamic approach to space allocation within the stores?

Edward W. Stack
Chairman & Chief Executive Officer

A

Well, I interpreted the question to be any significant space allocation or growing the areas that we have already grown. So, the areas that we have already grown are – that's completed. We're very comfortable with that. We may try to get a little bit more area for the youth business, but all-in-all, that's basically done. So, that was my interpretation of the question.

To broaden the question, will there be other areas of space allocation changes? Yes, there will be. We're not going to go into that right now as we're still working through some of these, but we do expect to change some space allocation next year. It won't be as big a change as what we did this year, though.

Michael Lasser
UBS Securities LLC

Q

Does that reflect just a difference in philosophy where you will take a more dynamic approach to how you allocate space within the stores?

Edward W. Stack
Chairman & Chief Executive Officer

A

I think we're just taking a look at some of the opportunities that we see out there based on where the environment is today. And when we think we need to change space, we'll change it. But we won't change it just to change it. And we think that there's a couple of other areas where we think we can get some meaningful change from a sales trajectory and the categories that we're looking to modify with more space our higher profit margin categories.

Michael Lasser
UBS Securities LLC

Q

Okay. And you mentioned that you are expecting a promotional holiday. What's going to get the promotional environment to get better as we enter 2015? In more and more markets you are facing [ph] Academy (58:33), which seems to be the source of a lot of the pressure. And some of the online competition is not going away. What's going to cause it to be less promotional?

Edward W. Stack
Chairman & Chief Executive Officer

A

I think just having the consumer gain more confidence in what's going on. And I think that that hopefully could start to happen next year. But I think it's all based on the consumer.

Michael Lasser
UBS Securities LLC

Q

And then my final question is on the guns and ammo business. Is there anything else besides an easier comparison in the fourth quarter that's motivating some of your confidence in the outlook of that category?

Edward W. Stack
Chairman & Chief Executive Officer

A

No.

Michael Lasser
UBS Securities LLC

Q

Thank you very much.

Edward W. Stack
Chairman & Chief Executive Officer

A

It's just easier comps.

Michael Lasser
UBS Securities LLC

Q

Okay. Thanks a lot.

Operator: Our next question is from David Magee of SunTrust Robinson Humphrey. Please go ahead.

David G. Magee
SunTrust Robinson Humphrey

Q

Yes, hi. Good morning. I just had a couple of questions on the eCommerce side. The [ph] gross spread (59:25) stepped down this year, although it's still rapid. Have you updated your plans, either officially for us or just internally, about what you think penetration of that channel might be for you guys eventually?

Edward W. Stack
Chairman & Chief Executive Officer

A

We talk about that internally all the time. We haven't updated anything publicly, nor are we right now. But, yes, we talk about this almost every day. We think that it continues to be, obviously, a very big opportunity from an omni-channel standpoint and we are taking a look at how to best do that, whether that is some of the things that we are doing with our site or we're doing to streamline the ship-from-store process, whether that's continuing with our vendor direct programs. We talk about how we can increase that percentage every day.

David G. Magee
SunTrust Robinson Humphrey

Q

Are there opportunities for you to carry vendor products that are not even offered by the vendors on their sites?

Edward W. Stack
Chairman & Chief Executive Officer

A

I would say that's going to be pretty remote that there is something that the vendor would be making that they wouldn't put on their site but they would only put on our site.

David G. Magee
SunTrust Robinson Humphrey

Q

And then lastly, is the loyalty program important to your share gain in eCommerce?

Edward W. Stack
Chairman & Chief Executive Officer

A

We think that that is, yes. And we've made some strides in what we are doing from a loyalty program there and we are seeing increasing sales with our loyalty program online.

David G. Magee
SunTrust Robinson Humphrey
Q

Okay, great. Thank you.

Edward W. Stack
Chairman & Chief Executive Officer
A

Sure.

Operator: Our next question is from Joe Feldman of Telsey Advisory. Please go ahead.

Joseph Isaac Feldman
Telsey Advisory Group LLC
Q

Yeah, hi. Good morning, guys. Thanks for taking the question. I want to go back to the online business for a second. And, I wanted to better understand, like what percentage of your online sales are being shipped from the stores? And I know the Buy Online, Pick Up in Store is early, but similar kind of question, like what percent of people are picking up at the store? And when they do, are they buying more than just what they initially bought online? I was just kind of curious about some of those two dynamics?

Edward W. Stack
Chairman & Chief Executive Officer
A

So, the Buy Online, Pick Up in Store, that's still a relatively new program. That's a pretty small percentage of our business right now. We've started ship-from-store. We've gotten great leverage out of, from an expense standpoint with our ship-from-store capabilities. And although we are not going to give you a specific number, it's a meaningful number.

Joseph Isaac Feldman
Telsey Advisory Group LLC
Q

Got it. And then, I may have missed it and I apologize if I did, but we keep referring to the hunting category, but I recall in the past quarter, last quarter anyway, you had also said excluding just the pure hunting, like gun and ammo, the rest of the outdoor categories were actually pretty decent in the second-quarter. And I was curious if you broke that out this quarter or if you haven't, if you would maybe talk about some of the other outdoor categories and the performance there?

Edward W. Stack
Chairman & Chief Executive Officer
A

Sure. So, we typically delineate the lost hunting business and we also talk about businesses such as outdoor equipment. So that would include things like lifestyle, camping, bikes, water sports, paddle sports, et cetera. And that category, outdoor equipment actually comped positive this quarter, did fairly well and it was really driven by lifestyle, camping, and paddle sports, where we did very well in Q3. So, we are very happy with the performance of that business. We are not going to get into specific comps, but we did do very well there.

Joseph Isaac Feldman
Telsey Advisory Group LLC
Q

Got it. That's great. Thanks, guys. I appreciate the question. And good luck, Joe.

Joseph H. Schmidt
President & Chief Operating Officer

A

Thank you.

Operator: Our next question is from Rick Nelson of Stephens. Please go ahead.

Nicholas Zangler
Stephens, Inc.

Q

Hi, guys. This is Nick Zangler in for Rick Nelson. I just wanted to clarify, in the average store, you've increased women's and youth apparel categories by just greater than a 1000 square feet, is that right?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah. We took 1000 out of golf, we said. We took some space out of bikes. We took some space out of the fitness area. We haven't kind of said specifically what that was, but the women's and youth business took some space from all three of those categories.

Nicholas Zangler
Stephens, Inc.

Q

Okay, got it. And last quarter, you had mentioned that both these categories increased north of double-digit comps. Did that continue into the third quarter?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yes.

Nicholas Zangler
Stephens, Inc.

Q

Great. And then, EPS in fact of promotional activity was $0.04 in the second half. Is that still looking to be the case? And is that evenly split?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah, I think we talked about that at the end of our Q2 call and I think that has been baked into the guidance that we have. So, how that gets shaped between $0.03 and $0.04, we'll leave that for you all to figure that out. But I think it's about the $0.04 we talked about that hasn't changed. And, as you know, our guidance hasn't changed. We actually took the bottom of our range up to $2.75 versus $2.70 and kept the range at $2.75 to $2.85.

Nicholas Zangler
Stephens, Inc.

Q

Yes, and does that, I mean, obviously, you guys came in at the higher end of the range this quarter, but are you guys feeling more incrementally positive going into the fourth quarter given that adjustment?

André J. Hawaux
Chief Financial Officer & EVP-Administration

A

I think we feel – as Ed mentioned and we've all talked about, I think we feel that we are prepared for the holiday. I think we have a great marketing campaign that's out there, that hopefully many of you have seen already running on TV. I think we have the assortment that our merchants have brought forward that consumers are going to look for. We are making big bets in categories such as wearables and other items that are going to be key items for us. So I think we feel pretty good and I think you all should show – I mean, I think we believe we've demonstrated by bringing the bottom of our range up that we feel very confident that we are going to be in that $2.75 to $2.85 number. And I think that does demonstrate we have confidence in where the business is.

Nicholas Zangler
Stephens, Inc.

Q

Great. And then lastly on Field & Stream. I'm curious, are you guys advertising the Field & Stream concept in those new markets when you go out? TV advertising?

Edward W. Stack
Chairman & Chief Executive Officer

A

We are. We are spending some money – around the grand opening, we are spending money on television and radio in those new markets.

Nicholas Zangler
Stephens, Inc.

Q

Okay. And, are you still expecting perhaps 10 to 15 stores next year?

Edward W. Stack
Chairman & Chief Executive Officer

A

We haven't guided for 2015. We'll talk about that in our fourth-quarter call.

Nicholas Zangler
Stephens, Inc.

Q

Okay. Great. Thank you very much. And good luck.

Edward W. Stack
Chairman & Chief Executive Officer

A

Thank you.

Operator: Our next question is from Dan Read of Barclays. Please go ahead.

Dan Read
Barclays International

Q

Yes, hi. Thanks for taking my call. A quick question here. Now that you guys are 10 stores in with Field & Stream, what surprised you with respect to their performance? And, I guess, more importantly, I mean, how has this changed kind of your perception of outdoor categories within your core stores?

Edward W. Stack
Chairman & Chief Executive Officer

A

I think one of the things that surprised us is just the participation in those sports with the women consumer. So, we've quickly learned that there is an opportunity there. We have explored with some categories, especially around the apparel, but also in some of the hunting categories. And we have seen a pretty good response. So, we are pleased with how the stores are performing so far.

Dan Read
Barclays International

Q

And, I guess, kind of one follow-up. What's your perception? I know it's very early on, but given kind of your clout within the overall space, I mean what's your perception in terms of how your competitors have responded?

Edward W. Stack
Chairman & Chief Executive Officer

A

We haven't seen any meaningful difference in our competitors as far as store count or how they are operating their stores.

Dan Read
Barclays International

Q

Got you. Thank you so much, I appreciate it.

Operator: Our next question is from Wayne Hood of BMO. Please go ahead.

Wayne Hood
BMO Capital Markets (United States)

Q

Yeah, thanks, guys. Just a quick question for you. We understand that Nike is making some changes to their map pricing and some seasonal goods into next year, and I'm just wondering if they kind of go down that path, does that have any impact on how you think about the business either competitively or anything like that as they go through that?

Edward W. Stack
Chairman & Chief Executive Officer

A

Yeah, we don't – we'll have to wait and see, but we don't really think it's going to impact our business one way or the other. I think it will take some of the promotional activity out of the business, so it should help increase margin rates. And, whether it has an impact on sales or not, we'll have to remain to see, but we think it will be positive from a margin rate standpoint.

Wayne Hood
BMO Capital Markets (United States)

Q

Okay. And, Andre, just a couple of questions for you. You're up against a steep 6% increase in traffic in the fourth-quarter because of what you went through last year, and I'm just wondering when you think about that 1% to 3% comp guidance, what's embedded with transaction growth in the fourth quarter in light of you coming off a decline in the third quarter?

André J. Hawaux
Chief Financial Officer & EVP-Administration

A

Yeah. So we're not going to get into the taxonomy of the traffic and our tickets and things like that. I do think I'll go back to what I just mentioned, is I do believe we think our marketing programs are strong. I think we have bought against key items. I think our associates are geared up for a very strong holiday. So, I do believe we are very comfortable, and we have to be very comfortable because we talked about it, about that comp range that we are talking about for Q4. And understanding what we are [ph] lapping (01:08:25). We very much know what we are up against.

Wayne Hood
BMO Capital Markets (United States)

Q

Okay. And then, finally, I'm just trying to reconcile whether you-- inventory is up 12%, your sales are up 9%, and yet you say you feel comfortable with your inventory, is that your comp store inventories are down? Or how do we reconcile the delta between the two?

André J. Hawaux
Chief Financial Officer & EVP-Administration

A

Yeah, so, if you recall, there was a prior investor that asked the question about how much of the inventory was related to Field & Stream. If you just look at the DICK'S Sporting Goods inventory, like-to-like, it's pretty much about 8% up year-over-year. So, I think we are very comfortable and we also have talked about, I think Ed mentioned, that our clearance inventory is at the levels that we expected it to be and very similar to where it was in Q3 last year. So we are very confident that we're exiting – we exited Q3 with our inventory where we wanted it to be.

Wayne Hood
BMO Capital Markets (United States)

Q

All right, thank you so much.

Operator: Thank you. This concludes our question and answer session. I would like to turn the conference back over to Ed Stack for any closing remarks.

Edward W. Stack
Chairman & Chief Executive Officer

Thank you. I'd like to thank everyone for joining us on our third quarter conference call and we look forward to talking to everyone regarding our fourth quarter results. Thank you.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.